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June 2004

Special Notice to Michigan Retailers Concerning a One-Time Inventory Tax on All Tobacco Products

Recent legislation increased the tax on all tobacco products. Effective July 1, 2004, the tax on cigarettes will increase from \$1.25 to \$2.00 on a 20-cigarette pack and from \$1.56 to \$2.50 on a 25-cigarette pack. The tax rate on other tobacco products (OTP) will increase from 20% to 32% of the wholesale price of the OTP. (OTP includes any cigar or roll for smoking, other than a cigarette, made in whole or in part of tobacco, and any tobacco other than cigarettes, intended for consumption by smoking, chewing, or as snuff.)

As a result of this tax increase, a retailer who sells tobacco products must:

- Take a physical inventory of all cigarettes and OTP that it has "on hand for sale" as of the close of business June 30, 2004. The amount of cigarettes and OTP a licensee or retailer has "on hand for sale" is the actual physical inventory of cigarettes and OTP. This includes cigarettes and OTP offered for sale, kept on site, and kept or stored at other locations in Michigan.
- File a tobacco products inventory tax return with the Michigan Department of Treasury postmarked by August 2, 2004, and pay the additional tax per cigarette pack and the additional tax of 12% of the wholesale price of OTP for all physical inventory on hand as of the close of business on June 30, 2004. The physical inventory includes cigarettes and OTP offered for sale, kept on site, and kept or stored at other locations in Michigan. The tobacco tax licensees from whom you purchase your tobacco products are responsible for reporting and collecting the tax at the rate in effect on July 1, 2004, on any cigarettes or OTP that you received on or after July 1, 2004, regardless of whether the cigarettes or OTP were shipped before July 1, 2004.

Wholesale Price of OTP

The inventory tax on OTP is based on the "wholesale" price of the OTP. The wholesale price of OTP is the established price for which a manufacturer sells tobacco products to a distributor before the allowance of any discount, trade allowance, rebate or other reduction. In the absence of the established price, the wholesale price is the manufacturer's invoice price. If you know the wholesale price, apply the inventory tax rate to that amount. If you do not know or cannot identify the wholesale price of the OTP, use 50% of the OTP retail price (excluding sales tax) as the wholesale price.

Physical Inventory

The results of the physical inventory of tobacco products must be reported on Form 4182, *Michigan Tobacco Products Inventory Tax Return* (enclosed).

If you have tobacco products stored, kept or offered for sale at more than one business location in Michigan, you must file one inventory tax return for each location that has a separate Federal Employer Identification Number (FEIN). Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax. A separate physical inventory must be taken at each location.

If tobacco products are stored, kept or offered for sale at more than one business location in Michigan and each location uses the same FEIN, you must file one inventory tax return that includes the information for all locations. A separate physical inventory must be taken at each location. Copies of the inventories must be forwarded to the location responsible for completing the inventory tax return. Cigarettes and OTP stored at locations other than the primary business location must be included in the inventory for the inventory tax.

If you do not sell tobacco products or do not have an inventory, complete the name and FEIN portion of Form 4182 and mark the box indicating that you do not sell cigarettes or OTP. Complete Form 4182 and mail it to the address on the form postmarked by August 2, 2004.

Inspection and Audit

For audit purposes, retailers must keep all records of the physical inventory used to arrive at the tobacco products inventory tax due. The original inventory record shall be kept at each retail location for four months and retained for four years at the main office.

The Michigan Department of Treasury may require distributors to disclose recent purchases and historic purchase trend information to assist in administering the inventory tax.

Inventory Tax Return – Obtaining, Filing and Paying

If you are required to file a return but have not received one, Form 4182, *Michigan Tobacco Products Inventory Tax Return*, is available on Treasury's Web site at www.michigan.gov/tobaccotaxes, by contacting the Tobacco Products Inventory Tax Review Unit at 517-636-4120 or by faxing the Unit at 517-636-4631 to request a form. The form must be submitted with the appropriate tax payment by August 2, 2004.

A retailer's failure to receive Form 4182 is not an acceptable reason for failure to file and pay the tobacco products inventory tax that is due. Retailers who do not file and pay timely may be subject to penalty and interest for late filing in accordance with the Revenue Act, Public Act 122 of 1941.

For more information about this tax law change, please visit our Web site at www.michigan.gov/tobaccotaxes. You may also contact the Tobacco Products Inventory Tax Review Unit at 517-636-4120 if you have questions.